

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [] City [] Township [] Village [X] Other		Local Government Name Missaukee County Road Commission	County Missaukee
Audit Date December 31, 2005	Opinion Date April 7, 2006	Date Accountant Report Submitted to State: April 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

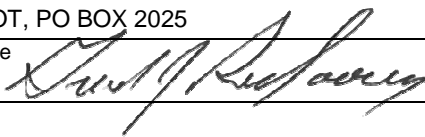
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-----|-----|-----|----|---|
| [] | Yes | [X] | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [X] | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [] | Yes | [X] | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [X] | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [X] | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [X] | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [X] | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [X] | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [X] | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



Missaukee County Road Commission
(A Component Unit of Missaukee County)

Lake City, Michigan

Financial Statements

For the Year Ended December 31, 2005

MISSAUKEE COUNTY ROAD COMMISSION
(A Component Unit of Missaukee County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements for the Year Ended December 31, 2005	
Statement of Net Assets and General Fund Balance Sheet	8
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	9
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	10
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	12-13
Notes to Financial Statements	14-22
Operating Fund Schedules	
General Operating Fund – Schedule of Revenues by Component	23
General Operating Fund – Schedule of Expenditures by Component	24
General Operating Fund – Schedule of Changes in Fund Balance	25
Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26-27



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

April 7, 2006

Members of County Road Commission
County of Missaukee
1199 N. Morey Road
Lake City, MI 49651

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Missaukee County Road Commission**, a component unit of Missaukee County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Missaukee County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Missaukee County Road Commission** as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006 on our consideration of the **Missaukee County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Missaukee County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Missaukee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Missaukee County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Road Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Missaukee County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Missaukee County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 8 and 10 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 through 14 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 14 through 22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's Net assets decreased approximately 19.7% or \$557,777 from \$20,594,435 to \$20,036,658 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Missaukee County Road Commission Net Assets:

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 1,645,776	\$ 1,977,518	\$ (331,742)	-16.8%
Capital assets	<u>18,733,048</u>	<u>18,997,772</u>	<u>(264,724)</u>	-1.4%
Total assets	<u>20,378,824</u>	<u>20,975,290</u>	<u>(596,466)</u>	-2.8%
Long-term liabilities outstanding	134,973	129,891	5,082	3.9%
Other liabilities	<u>207,193</u>	<u>250,964</u>	<u>(43,771)</u>	-17.4%
Total liabilities	<u>342,166</u>	<u>380,855</u>	<u>(38,689)</u>	-10.2%
Net assets:				
Invested in capital assets, net of related debt	18,733,048	18,997,772	(264,724)	-1.4%
Unrestricted	<u>1,303,610</u>	<u>1,956,663</u>	<u>(293,053)</u>	-18.4%
Total net assets	<u>\$ 20,036,658</u>	<u>\$ 20,594,435</u>	<u>\$ (557,777)</u>	-19.7%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Missaukee County Road Commission, assets exceeded liabilities by \$20,036,658 at the close of the most recent fiscal year.

By far the largest portion of the Missaukee County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Although the Missaukee County Road Commission's investment in its capital assets is reported net of related debt, it should

be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2005 and 2004 follows:

	<u>December 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
Program revenue		
Charges for services	\$ 1,113,680	\$ 821,188
Operating grants and contributions		
State transportation funds	2,957,710	3,595,087
Capital grants and contributions		
Federal and state sources	70,994	676,021
Developmental	-	5,580
General revenue		
Interest and rents	28,076	16,176
Other general revenue	-	25,747
Gain on equipment disposal	<u>26,842</u>	<u>1,588</u>
Total revenue	4,197,302	5,141,387
Expenses		
Public Works	<u>4,755,079</u>	<u>4,105,111</u>
Increase (decrease) in net assets	<u>\$ (557,777)</u>	<u>\$ 1,036,276</u>

Governmental activities decreased the Missaukee County Road Commission's net assets by \$557,777. The key elements of this decrease are as follows:

- There was a 16% increase in public works expenses from the prior year which was primarily funded with net assets that had accumulated in prior years.
- There was a decrease in availability of federal and state revenues.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue and expense budget for 2005 was unchanged from the original budget.

Capital Assets and Debt Administration

As of December 31, 2005, the Missaukee County Road Commission had invested \$18,733,048 in capital assets. This amount represents a net decrease (including additions and deductions) of \$265,107 for 1.40% as follows:

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004/2005</u>
Capital assets being depreciated			
Land improvements	\$ 101,014	\$ 101,014	0.00%
Buildings	1,291,094	1,284,744	0.49%
Equipment	4,263,629	4,000,839	6.57%
Infrastructure	<u>30,863,131</u>	<u>29,841,104</u>	3.42%
Total capital assets	36,518,868	35,227,701	3.67%
Total accumulated depreciation	<u>(17,785,820)</u>	<u>(16,229,546)</u>	<u>9.59%</u>
Total net capital assets	<u>\$ 18,733,048</u>	<u>\$ 18,998,155</u>	-1.40%

Major capital asset events during the current fiscal year included the following:

Reconstruction of bridges	\$ 11,968
Various resurfacing of roads	1,010,059
Building additions and equipment	<u>515,786</u>
Total Additions	<u>\$ 1,537,813</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

Long-term debt

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

No significant factors influenced our preparation of the 2006 Road Commission budget.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Director, Missaukee County Road Commission, 1199 N. Morey Rd., Lake City, Michigan 49651.

BASIC FINANCIAL STATEMENTS

MISSAUKEE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 827,647	\$ -	\$ 827,647
Accounts receivable			
Michigan transportation fund	438,293	-	438,293
State trunkline maintenance	73,836	-	73,836
Due from other governments	872	-	872
Due on county road agreements	112,336	-	112,336
Sundry accounts receivable	1,610	-	1,610
Inventories			
Equipment material and parts	162,170	-	162,170
Road materials	29,012	-	29,012
Capital assets			
Land and improvements	-	54,222	54,222
Property and equipment - net of accumulated depreciation	-	1,735,795	1,735,795
Infrastructure - net of accumulated depreciation	-	16,943,031	16,943,031
Total assets	\$ 1,645,776	18,733,048	20,378,824
LIABILITIES			
Accounts payable	\$ 74,704	-	\$ 74,704
Accrued liabilities	19,100	-	19,100
Advances			
State trunkline equipment purchase	77,308	-	77,308
State trunkline maintenance	36,081	-	36,081
Long-term liabilities			
Due within one year	-	13,497	13,497
Due after one year	-	121,476	121,476
Total liabilities	207,193	134,973	342,166
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	191,182	-	191,182
Unreserved, undesignated	1,247,401	-	1,247,401
Total fund balance	1,438,583	-	1,438,583
Total liabilities and fund balance	\$ 1,645,776		
Net Assets:			
Investment in capital assets		18,733,048	18,733,048
Unrestricted		1,303,610	1,303,610
Total net assets		\$ 20,036,658	\$ 20,036,658

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2005

Fund balances - General Fund	\$ 1,438,583
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land improvements	101,014
Add - property and equipment	5,554,723
Add - infrastructure	30,863,131
Deduct - accumulated depreciation	(17,785,820)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(134,973)</u>
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Net assets of governmental activities	<u><u>\$ 20,036,658</u></u>
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The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 2,947,077	\$ 1,808,002	\$ 4,755,079
Capital outlay	1,537,813	(1,537,813)	-
Total expenditures/expenses	<u>4,484,890</u>	<u>270,189</u>	<u>4,755,079</u>
Program revenue			
Charges for services	1,113,680	-	1,113,680
Operating grants and contributions			
State transportation funds	2,957,710	-	2,957,710
Capital grants and contributions			
Federal and state sources	<u>70,994</u>	<u>-</u>	<u>70,994</u>
Total program revenues	<u>4,142,384</u>	<u>-</u>	<u>4,142,384</u>
Net program revenue (expense)			<u>(612,695)</u>
General revenue			
Interest and rents	28,076	-	28,076
Gain on sale of assets	<u>26,842</u>	<u>-</u>	<u>26,842</u>
Total general revenue	<u>54,918</u>	<u>-</u>	<u>54,918</u>
Total revenue	<u>4,197,302</u>		
Revenue over (under) expenditures	(287,588)	287,588	-
Changes in net assets	-	(557,777)	(557,777)
Fund balance/net assets:			
Beginning of the year, as restated	<u>1,726,171</u>	<u>18,868,264</u>	<u>20,594,435</u>
End of the year	<u><u>\$ 1,438,583</u></u>	<u><u>\$ 18,598,075</u></u>	<u><u>\$ 20,036,658</u></u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2005

Revenues (under) expenditures - General Fund	\$ (287,588)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	515,786
Add - Infrastructure purchases	1,022,027
Deduct - depreciation expense	(1,802,920)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

(5,082)

Change in net assets of governmental activities	<u><u>\$ (557,777)</u></u>
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The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Permits and licences	\$ -	\$ -	\$ 4,545	\$ 4,545
Federal sources				
Other - National Forest	-	-	4,290	4,290
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	2,757,445	2,757,445	2,903,721	146,276
Snow funds	40,000	40,000	43,989	3,989
Economic development funds				
Forest Road (E)	67,000	67,000	66,704	(296)
Contributions				
Townships	417,500	417,500	482,600	65,100
Charges for services				
State trunkline maintenance	426,582	426,582	427,420	838
State trunkline non-maintenance	200,000	200,000	186,188	(13,812)
Salvage sales	-	-	2,039	2,039
Other	-	-	8,750	8,750
Interest and rentals	21,000	21,000	28,076	7,076
Other revenue				
Miscellaneous	-	-	2,138	2,138
Gain on equipment disposals	-	-	26,842	26,842
Total revenue	<u>3,939,527</u>	<u>3,939,527</u>	<u>4,197,302</u>	<u>257,775</u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Heavy maintenance	\$ 664,241	\$ 664,241	\$ 228,832	\$ 435,409
Maintenance	839,136	839,136	913,967	(74,831)
Local Road				
Heavy maintenance	591,778	591,778	793,195	(201,417)
Maintenance	1,449,253	1,449,253	1,438,649	10,604
Total maintenance	3,544,408	3,544,408	3,374,643	169,765
State trunkline maintenance	426,582	426,582	462,842	(36,260)
State trunkline non-maintenance	-	-	186,187	(186,187)
Equipment expense (net)	(295,404)	(295,404)	41,524	(336,928)
Administrative expense (net)	155,750	155,750	280,008	(124,258)
Capital outlay (net)	105,000	105,000	139,686	(34,686)
Total expenditures	3,936,336	3,936,336	4,484,890	(548,554)
Net change in fund balance	3,191	3,191	(287,588)	(290,779)
Fund balances, beginning of year	1,726,171	1,726,171	1,726,171	-
Fund balances, end of year	<u>\$ 1,729,362</u>	<u>\$ 1,729,362</u>	<u>\$ 1,438,583</u>	<u>\$ (290,779)</u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Missaukee County Road Commission (the “Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Missaukee County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Missaukee, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A single financial statement presentation is provided for the general fund and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. Inventory

Inventory, consisting of various operating parts, supplies and road material, is determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$200 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

GASB Statement Number 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement Number 34. The Road Commission has capitalized the current year's infrastructure, as required by GASB Statement Number 34, and has reported the infrastructure assets on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Land improvements	20 years
Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	50 years
Infrastructure – roads	20 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the year ended December 31, 2005, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

5. Compensated Absences

The total accumulated unpaid vacation and sick pay liability of the Missaukee County Road Commission at December 31, 2005 was \$134,973. Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability.

County Road employees earn vacation leave in varying amounts depending on the number of years of service. Accumulated vacation may not exceed the total earned for any given year per the union contract. Non-union employees are also subject to the vacation provisions in the union contract. Unpaid vacation leave at December 31, 2005 amounted to \$62,979.

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 640 hours. The policy also provides that employees, who are separate from employment with the Road Commission, will be paid ½ of their accumulated sick leave. Unpaid sick leave at December 31, 2005 was \$71,994.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The budgetary data presented in the financial statements of the Road Commission are in accordance with the Uniform Budgeting and Accounting Act (Act 621, Public Acts of 1978), as prescribed by the State of Michigan.

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

1. In December the clerk-finance director submits, to the Commission, a proposed operating budget for the year commencing on January 1.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. For purposes of meeting emergency needs of the Road Commission, transfers of appropriations may be made by the authorization of the clerk. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.
4. The Clerk is charged with general supervision of the budget.
5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

At year-end, the carrying amounts and bank balance of the Authority's deposits were as follows:

	Cash and Cash Equivalents
Cash on hand	\$ 100
Other demand accounts	703,397
Cash on deposit with Missaukee County internal cash management pool	<u>124,150</u>
	<u>\$ 827,647</u>

This entire balance is considered to be deposits for disclosure purposes.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, The Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. At year-end, \$706,211 of the Commission's bank balance of \$906,211 was exposed to custodial credit risk because it was uninsured and uncollateralized. FDIC coverage cannot be determined for deposits with the County.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Commission had no investments and therefore, did not have any concentrations of credit risk.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2005</u>
Capital assets not being depreciated				
Land	\$ 650	\$ -	\$ -	\$ 650
Capital assets being depreciated				
Land improvements	100,364	-	-	100,364
Buildings	1,284,744	6,350	-	1,291,094
Road equipment	3,886,264	494,008	(246,646)	4,133,626
Shop equipment	86,854	12,988	-	99,842
Office equipment	27,721	2,440	-	30,161
Infrastructure – roads	26,820,886	1,010,059	-	27,830,945
Infrastructure – bridges	<u>3,020,218</u>	<u>11,968</u>	<u>-</u>	<u>3,032,186</u>
Total capital assets being depreciated	<u>35,227,051</u>	<u>1,537,813</u>	<u>(246,646)</u>	<u>36,518,218</u>
Less accumulated depreciation				
Land improvements	(41,633)	(5,159)	-	(46,792)
Buildings	(354,338)	(37,984)	-	(392,322)
Road equipment	(3,254,692)	(322,743)	246,646	(3,330,789)
Shop equipment	(51,977)	(7,387)	-	(59,364)
Office equipment	(33,626)	(2,827)	-	(36,453)
Infrastructure – roads	(11,797,742)	(1,366,296)	-	(13,164,038)
Infrastructure – bridges	<u>(695,538)</u>	<u>(60,524)</u>	<u>-</u>	<u>(756,062)</u>
Total accumulated depreciation	<u>(16,229,546)</u>	<u>(1,802,920)</u>	<u>246,646</u>	<u>(17,785,820)</u>
Total net capital assets	<u>\$ 18,998,155</u>	<u>\$ (265,107)</u>	<u>\$ -</u>	<u>\$ 18,733,048</u>

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2005</u>	<u>Due Within One Year</u>
Compensated absences	\$ 129,891	\$ 5,082	\$ -	\$ 134,973	\$ 13,497

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Defined Contribution Pension Plan

The Missaukee County Road Commission Money Purchase Pension Plan, a single-employer plan, covers substantially all of its full-time employees. The employer contributes 10% of covered payroll. No employee contributions are allowed. The Plan is administered by a seven member committee comprised of three Road Commissioners, the Road Commission Manager and three employees elected by the Missaukee County Road Commission Employees' Association.

The Road Commission's contributions for the year amounted to \$96,126 (10% of covered payroll). The contributions are invested in the Public Employers Retirement Trust / Michigan.

Distributions from the plan will be made upon termination of employment or upon retirement, on or after normal retirement age of 62.

B. Post Employment Benefits

The Road Commission provides post employment hospitalization insurance coverage to its retired full-time employees who were hired before 1984.

The Road Commission funds 100% of the premiums of the policies on a pay-as-you-go basis. During 2005, the Road Commission paid deductibles and hospitalization premiums for 15 qualified individuals totaling \$83,288.

C. Self-Insurance Pool

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

D. Contingencies

The Missaukee County Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Missaukee County Road Commission for the costs incurred. These cost reimbursement contract expenditures are

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures that may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Missaukee County Road Commission. The audit adjustment is accounted for as an adjustment of the current year's expenditures.

E. Restatements

During the year ended December 31, 2005, a prior period adjustment in the amount of \$12,540 was necessary to properly account for investments and accrued payroll. The effect on the Commission's fund balance was as follows:

Fund balance, beginning of year, as previously stated	\$ 1,738,710
Prior period adjustments	
Investment valuation	(6,906)
Accrued payroll	<u>(5,633)</u>
Fund balance, beginning of year, as restated	<u>\$ 1,726,171</u>

* * * * *

OPERATING FUND SCHEDULES

MISSAUKEE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Permits and licenses	\$ -	\$ -	\$ 4,545	\$ 4,545
Federal sources				
Other - National Forest Reserve	-	-	4,290	4,290
State sources				
Michigan transportation funds				
Engineering	5,800	4,200	-	10,000
Allocation	1,713,304	1,190,417	-	2,903,721
Snow funds	43,989	-	-	43,989
Economic development funds				
Forest road (E funds)	66,704	-	-	66,704
Contributions from local units				
Townships	-	482,600	-	482,600
Charges for services				
State trunkline maintenance	-	-	427,420	427,420
State trunkline non-maintenance	-	-	186,188	186,188
Salvage sales	-	-	2,039	2,039
Other-brine and drain	-	-	8,750	8,750
Interest and rentals	-	-	28,076	28,076
Other				
Miscellaneous	-	-	2,138	2,138
Gain on equipment disposals	-	-	26,842	26,842
Total revenues	<u>\$ 1,829,797</u>	<u>\$ 1,677,217</u>	<u>\$ 690,288</u>	<u>\$ 4,197,302</u>

MISSAUKEE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Heavy maintenance				
Roads	\$ 228,832	\$ 782,509	\$ -	\$ 1,011,341
Structures	-	10,686	-	10,686
Maintenance				
Roads	550,685	1,169,204	-	1,719,889
Winter maintenance	359,306	257,333	-	616,639
Traffic control	3,976	12,112	-	16,088
Total maintenance and construction	1,142,799	2,231,844	-	3,374,643
State trunkline maintenance	-	-	462,842	462,842
State trunkline non-maintenance	-	-	186,187	186,187
Equipment expense (net)	10,314	23,885	7,325	41,524
Administrative expense (net)	94,823	185,185	-	280,008
Capital outlay (net)	-	-	139,686	139,686
Total expenditures	<u>\$ 1,247,936</u>	<u>\$ 2,440,914</u>	<u>\$ 796,040</u>	<u>\$ 4,484,890</u>

MISSAUKEE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 1,829,797	\$ 1,677,217	\$ 690,288	\$ 4,197,302
Total expenditures	<u>1,247,936</u>	<u>2,440,914</u>	<u>796,040</u>	<u>4,484,890</u>
Revenues over (under) expenditures	581,861	(763,697)	(105,752)	(287,588)
Other financing sources (uses)				
Intrafund transfers	<u>(513,991)</u>	<u>513,991</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	67,870	(249,706)	(105,752)	(287,588)
Fund balance, beginning of year	<u>530,328</u>	<u>334,603</u>	<u>861,240</u>	<u>1,726,171</u>
Fund balance, end of year	<u><u>\$ 598,198</u></u>	<u><u>\$ 84,897</u></u>	<u><u>\$ 755,488</u></u>	<u><u>\$ 1,438,583</u></u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

April 7, 2006

Members of the Board of County
Road Commissioners
County of Missaukee, Michigan
Lake City, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Missaukee County Road Commission, a component unit of Missaukee County, as of and for the year ended December 31, 2005, and have issued our report thereon dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Missaukee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Missaukee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and the County's Board of Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The script is cursive and fluid, with the first name "Lehmann" and last name "Johnson" clearly distinguishable.